

D.P.U. 94-178

Application of Massachusetts Electric Company for a change of its
Purchased Power Cost Adjustment No. W-92(S) and Purchased Power
Cost Adjustment Surcharge Factor.

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FOR: MASSACHUSETTS ELECTRIC COMPANY
Applicant

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Intervenor

I. INTRODUCTION

On December 9, 1994, pursuant to G.L. c.164, § 94G and 220 C.M.R. 8.00, Massachusetts Electric Company ("MECo" or "Company") filed with the Department of Public Utilities ("Department") a request for approval of a change in its purchased power cost adjustment ("PPCA") to reflect New England Power Company's ("NEP's") Primary Service for Resale Rate W-95(S) filing made with the Federal Energy Regulatory Commission ("FERC") on December 7, 1994. The Company requested the change be effective on and after the date of the instant decision. The matter was docketed as D.P.U. 94-178.

MECo is a wholly owned subsidiary of New England Electric System ("NEES"). NEES's other subsidiaries, affiliates of MECo, are NEP, Granite State Electric Company in New Hampshire, Narragansett Electric Company in Rhode Island, New England Power Service Company ("NEPSCo"), which provides engineering, technical, and other services for NEES companies; and New England Energy, Inc. MECo purchases all of its power requirements at wholesale from NEP pursuant to rates regulated by FERC. MECo does not own or operate any units of its own. MECo serves, on average, 906,036 customers in over 146 cities and towns located predominantly in northeast and central Massachusetts.

Pursuant to notice duly issued, a public hearing on the Company's application was held on January 25, 1995, at the Department's offices in Boston. Notice of the hearing was published in the Boston Herald, Worcester Telegram, Lynn Item, Eagle-Tribune, Berkshire Eagle, Springfield Daily News, and the Patriot Ledger. The Attorney General of the Commonwealth

intervened as of right pursuant to G.L. c. 12, § 11E.

At the hearing, the Company sponsored one witness: Michael F. Farrell, senior financial analyst for NEPSco. The evidentiary record consists of four exhibits: Exhibit M-1, the testimony of Mr. Farrell; Exhibit M-2, additional testimony of Mr. Farrell and revised calculations; Exhibit M-3, an illustration of MECo's Proposed Phase-Out of its Oil Conservation Adjustment ("OCA") Revenue and Phase-In of New PPCA W-95(S) Factor;¹ and Exhibit M-4, the stipulation and agreement reflecting the Massachusetts Bay Transportation Authority ("MBTA") Settlement.²

II. THE COMPANY'S PROPOSED W-95(S) PPCA FACTOR

A. BACKGROUND

In December 1992, NEP filed rate request W-95 with FERC, which requested an annual base rate increase of \$131.3 million (Exh. M-1, at 2). Subsequently, NEP filed a settlement on the W-95(S) rate request with FERC id. at 3). The settlement stipulates that NEP's base rates shall be designed to collect the same annual revenue amount consisting of the combination of (1) NEP's current base rates (designated as W-92(S)), (2) the

¹ The OCA surcharge, which became effective December 31, 1981, is intended to be an incentive for investor-owned electric companies to convert from oil-fired electric generation to coal-fired electric generation. MECo's OCA surcharge is associated with the recovery of fuel conversion costs at NEP's Salem Harbor generating units (Exh. M-1, at 3).

² The MBTA Settlement is an agreement filed before the FERC, Docket #ER94-129-000, and the Department, D.P.U. 94-102, that provides (1) a rate that recovers the average cost of MECo's primary distribution facilities and the cost of any new facilities necessary to serve the MBTA, (2) a rate for back-up power should Boston Edison Company fail to deliver sufficient power, and (3) a "stranded cost" charge.

Seabrook 1 surcharge, and (3) the OCA surcharge³. Under the FERC settlement both the OCA and Seabrook 1 surcharge will be rolled into NEP's base rates. Thus, according to the settlement, NEP will continue to collect these revenues even though both surcharges would have expired in 1995. The surcharges would be expected to recover approximately \$41.8 million on an annual basis; \$25.1 million for the OCA surcharge and \$16.8 million for the Seabrook 1 surcharge id.).

The Seabrook 1 surcharge is collected through base rates for both NEP and MECo id.). Accordingly, retaining the Seabrook 1 surcharge does not necessitate a PPCA change~~id.~~id.). However, the OCA is a separate charge in both NEP's and MECo's rates and on customer's bills id.). Thus, on February 9, 1995, the effective date of the settlement, NEP ceased to bill any costs through its OCA and instead billed an equivalent increase to its base costs (id.). Accordingly, MECo proposed to end the collection of its OCA on and after the effective date of the instant order.

B. MECo's CALCULATION

MECo provided schedules in support of its proposed W-95(S) PPCA based on NEP's W-95(S) wholesale rate approved by the FERC. As shown in the attached Table I, the Company calculated its PPCA by first subtracting the sum of the total W-95(S) purchase power expense from the total W-12 benchmark purchase power expense⁴.

³ The Seabrook 1 surcharge was established in a settlement approved by FERC in Docket #ER88-86-000 (the W-9 Settlement).

⁴ The W-12 benchmark is the amount of purchased power expenses that are currently included in base rates, as approved in Massachusetts Electric Company D.P.U. 91-52 (1991).

This results in a difference of \$48,171,358, which is the proposed level of MECo's PPCA due to NEP's Rate W-95(S) (Exh. M-2, exh. MFF-8, at 1). Second, the Company calculated its 1994 total kilowatt-hour ("KWH") sales to be \$15,676,551,971 (Tr. at 25). Lastly, the Company divided the level of NEP's Rate W-95(S) by the total 1994 KWH sales, resulting in a PPCA factor of \$0.00307 per KWH (Exh. M-2, exh. MFF-9, at 1).

MECo's proposed PPCA W-95(S) of \$0.00307 per KWH is an increase of \$0.00141 per KWH over PPCA W-92(S) levels that are currently in effect (Tr. at 9). MECo proposed to offset this increase in the PPCA in part by eliminating its OCA factor, now at \$0.00111 per kWh, at the same time that the PPCA W-95(S) would be implemented.⁵

Any OCA revenues collected between the effective date of NEP's Rate W-95(S) and the effective date of MECo's PPCA W-95(S), will be applied to the PPCA reconciliation, and will be offset by the increase in MECo's purchased-power expense under W-95(S) that occurs during the same period (Exh. M-3).

III. SURCHARGE FACTOR

According to MECo, it has undercollected by \$16,032,470 through December 31, 1994 under the PPCA reconciliation. MECo

⁵ MECo will experience a slight increase in charges from NEP as a result of the OCA being rolled into the PPCA because the OCA is collected by NEP at a constant KWH charge, whereas, the PPCA is collected by NEP at time-differentiated KWH charges that are based on marginal costs. The different collection methods result in NEP allocating more of these costs to MECo.

⁶ MECo proposed to defer, until MECo's next general rate case, the litigation of any issues associated with the revenue credit to MECo's PPCA balance beyond those amounts that MECo has already agreed to credit in the MBTA settlement filed in

proposes a surcharge factor of \$0.00051 per KWH to be collected over a 24 month period commencing with the effective date of the PPCA W-95(S).⁷

The impact of the PPCA W-95(S) and the surcharge factor on a typical monthly 500 KWH non-heating residential bill is an increase of \$0.40 or 0.74 percent over the current monthly bill of \$54.05; and on a typical monthly 1200 KWH heating residential bill is an increase of \$0.97 or 0.80 percent over the current monthly bill of \$120.59 (Exh. M-2, at 4).

The Department finds that the Company's proposed changes to its PPCA factor, surcharge factor, and OCA factor, which reflect the FERC approved changes are reasonable.

IV. ORDER

Accordingly, after due notice, public hearing, and consideration, it is

ORDERED: That Massachusetts Electric Company's purchased power cost adjustment factor W-95(S) of \$0.00307 per KWH is permitted to become effective, for all Massachusetts Electric Company filed rates, with respect to electricity consumed on or after March 3, 1995, and shall be applied as a uniform charge to each kilowatthour sold pursuant to the applicable rates that are subject to the Company's purchased power cost adjustment

D.P.U. 94-102 and FERC Docket #ER94-129-000 (Tr. at 13). MECo did not include the MBTA payments in the design of the PPCA W-95(S) factor or include them in the reconciliation of PPCA revenue and expense. The revenues from the MBTA will be credited to the PPCA reconciliation for the year ending 1995.

⁷ This proposal is consistent with Massachusetts Electric Company, D.P.U. 89-191, at 14 (1990) where the Department approved a PPCA reconciliation approach if no refunds were expected in two years.

provisions; and it is

FURTHERED ORDERED That Massachusetts Electric Company's proposal to eliminate the oil conservation adjustment factor at the same time that it implements the PPCA W-95(S) increase be and hereby is allowed; and it is

FURTHER ORDERED That Massachusetts Electric Company's proposal to apply to the PPCA reconciliation the oil conservation adjustment revenues collected by Massachusetts Electric Company between January 1, 1995 and March 2, 1995 be and hereby is allowed; and it is

FURTHER ORDERED That the Company shall file a reconciliation of its oil conservation adjustment revenues and expenses with its next Fuel Adjustment Clause filing; and it is

FURTHER ORDERED That Massachusetts Electric Company's surcharge factor of \$0.00051 per KWH is permitted to become effective, for all Massachusetts Electric Company filed rates, with respect to electricity consumed on or after March 3, 1995, and shall be applied as a uniform charge to each kilowatthour sold pursuant to the applicable rates that are subject to the Company's PPCA provisions.

By Order of the Department,

Kenneth Gordon
Chairman

Mary Clark Webster
Commissioner

Janet Gail Besser
Commission